the Glengair Group limited

ANNUAL
REPORT
1968

the Glengair Group limited

DIRECTORS

Directors

J. S. Gairdner

J. H. Gairdner

J. Howard Hawke

C. W. Leonardi, C.A.

John A. Mullin, Q.C.

Officers

J. S. Gairdner, *President*

J. Howard Hawke, *Executive Vice-President*

C. W. Leonardi, C.A., *Vice-President and Treasurer*

George L. Ploder, C.A., *Assistant Treasurer*

Cyrl H. Hollingshead, Q.C., *Secretary*

Transfer Agent and Registrar
Canada Permanent Trust Company
Montreal, Toronto, Winnipeg, Vancouver

Trustee—Debentures
The Royal Trust Company
Montreal, Toronto, Winnipeg, Vancouver

Auditors
Glendinning, Jarrett, Gould & Co.,
Chartered Accountants
Toronto

Solicitors
Fraser & Beatty,
Toronto

Listed
Montreal Stock Exchange

FINANCIAL HIGHLIGHTS

	1968	1967
Sales	$19,882,252	$20,384,369
Net Earnings	$ 738,071	$ 776,631
Earnings Per Share	9.4¢	9.9¢
Realized Appreciation of Marketable Securities	$ 683,383	$ 254,789
Value of Marketable Securities	$14,126,332	$ 9,722,275
Unrealized Appreciation of Marketable Securities	$ 8,443,151	$ 4,846,062
Number of Shares Outstanding	7,873,827	7,860,862

The Glengair Group Limited has achieved results for the year ended December 31, 1968 that compare favourably with the preceding year.

Consolidated net earnings amounted to $738,071 or 9.4 cents per share compared with $776,631 or 9.9 cents per share in 1967. The 1968 results are after implementation of the tax allocation basis and consequently the 1967 results have been adjusted so as to make them comparable.

During the year, The Glengair Group acquired Allanson Manufacturing Corporation Limited and Allanson Manufacturing Corporation. However, as the companies were acquired at the end of the year, earnings for the year have not been taken into account, although the acquisition is reflected in the Consolidated Balance Sheet. In addition, the Company acquired Redi-Set Holdings and its subsidiaries on January 20, 1969 and their results have not been reflected in any of the financial statements.

INVESTMENT PORTFOLIO

The year-end market value of the investment portfolio was substantially greater than at the end of 1967. Therefore, a corresponding adjustment occurred to the Unrealized Appreciation of Marketable Securities which is subject to fluctuation in response to market conditions.

	Dec. 31 1966	Dec. 31 1967	Dec. 31 1968
Cost	$5,169,765	4,836,928	5,624,550
Market	6,351,073	9,722,275	14,126,332

CANADA BRICK COMPANY

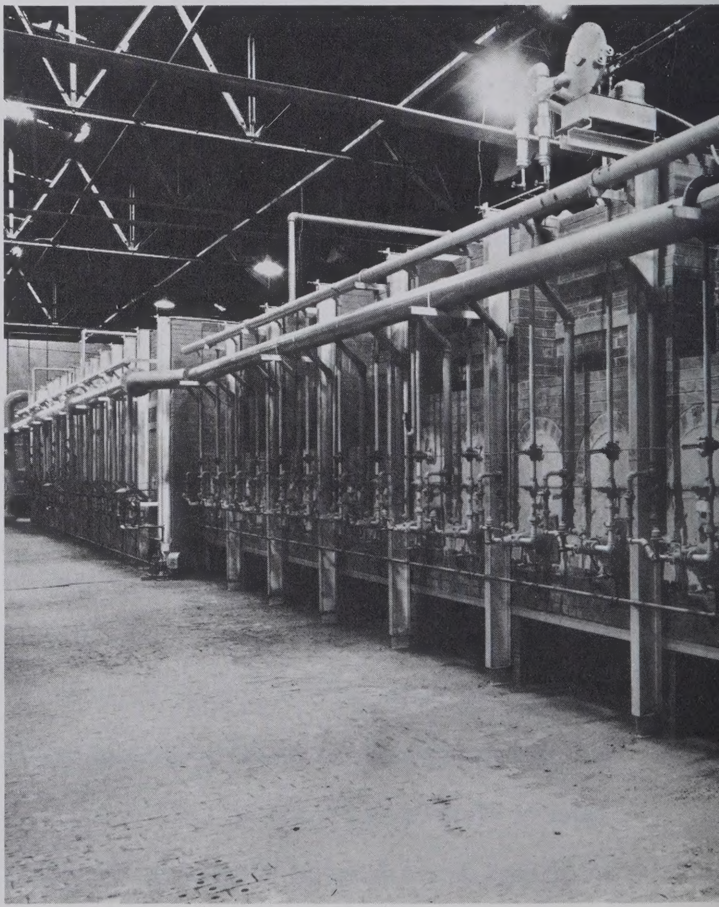
Favourable conditions in the construction industry and increased market penetration led to greater sales and profits for Canada Brick in 1968. The 6″ and 8″ through-the-wall units introduced last year, have gained wider acceptability and have contributed significantly to increased sales.

In anticipation of continuing strong market conditions, certain modifications are being undertaken at the plant to increase capacity by about ten per cent. The plant is now operating at full capacity in an effort to improve the low level of inventories that resulted from a six-week strike during the summer of 1968. Inventories are expected to return to normal in time for the construction season.

With a view to offering customers the widest possible selection, arrangements have been made with a brick producer in Western Canada for the distribution of its products in Ontario and Quebec. The new product line features predominantly white, buff and grey tones, which cannot be produced using local raw materials. Although the long freight haul results in comparatively higher delivered prices, the availability of brick from Western Canada will offer our customers an excellent alternative to American imports.

Canada Brick continues to study methods of improving its product quality and production costs. One such study has led to the installation of a prototype automatic brick setting device. Its function is to automatically place the unfired bricks, as they are formed by the making equipment, on to tunnel kiln cars.

With all phases of the construction industry on the upswing, Canada Brick Company is looking forward to the remainder of 1969 with optimism.



Tunnel kiln at Canada Brick.

NORTHERN TAR, CHEMICAL AND WOOD LIMITED

Net earnings after taxes of Northern Tar, Chemical and Wood Limited increased 23 per cent to $366,641 from $297,251 in 1967, and sales increased to $8,963,711 from $8,112,112. Strong demand for lumber throughout the year, combined with improved plant facilities, contributed to the company's increased profit.

Mechanization of woods operations and up-grading of equipment is a continuous process at Nortar, but one which contributes to profit by reducing operating costs through the increased efficiency it provides. New equipment at Port Arthur during the year included a modern and highly efficient timber slasher. Due to a fire, the main sawmill was destroyed and will be replaced by a modern sawmill, utilizing the most up-to-date and sophisticated equipment. It is expected to be in operation about July 1st. The last of the company's older treating retorts will also be replaced.

A capital program in excess of $1 million was begun in 1968, the funds coming from a combination of a forgivable loan from the Ontario Development Corporation and an additional long-term capital loan from the Prudential Insurance Company, thus enabling the company to invest in capital projects without deteriorating current working capital.

With the continuing demand for timber products, both treated and untreated, and improved facilities, Nortar is looking forward to continuing its upward trend in sales and earnings.

Aerial view, Northern Tar, Chemical and Wood Limited, Port Arthur, Ontario.

ALLANSON MANUFACTURING CORPORATION LIMITED

ALLANSON MANUFACTURING CORPORATION

Founded in 1928, Allanson Manufacturing Corporation Limited was acquired late in the year under review. The basis of acquisition was $995,272 plus 1,042,364 shares of The Glengair Group Limited.

Allanson Canada operates out of two plant sites in the Toronto area totalling approximately 105,000 square feet and employing 300 people. The company is engaged in the production of ballasts and transformers for a number of manufacturing industries, both original equipment manufacture and the after-market. It is the principal supplier in Canada of oil burner ignition transformers and neon lighting ballasts to their respective markets.

Other products include ballasts for fluorescent, mercury and sodium lighting, a full line of industrial and domestic battery chargers, and electrical parts for the automotive replacement market.

The percentage of production designated for export is relatively small at the present time, although Allanson Canada has built up a network of sales representatives overseas and exports to 26 countries. It is anticipated that Allanson Canada's participation in these markets will continue to be expanded in the future.

Allanson Manufacturing Corporation, New York State, was acquired at the same time as Allanson Canada. It has approximately 35 employees, and manufactures and assembles a limited range of products. Allanson U.S. has recently built a 35,000 square foot facility that can be expanded to more than double its present size. Current plans call for the inclusion of a much broader product base for the American operations and aggressive expansion into additional parts of the United States.

New products recently put into production include ballasts for Xenon lamps for movie projectors. Projection equipment in several major theatres has already been converted to Xenon, and the potential for conversion contracts in the educational field is most favourable. Allanson Canada acquired substantial experience in this area of operations during Expo '67 when it created special lighting effects for many of the Canadian-sponsored pavilions. In addition to Xenon, a complete line of theatre rectifiers for carbon-arc projector lamps has been designed with the first units installed in London, Ontario six months ago.

Transformer core assembly line at Allanson Canada.

Because of the specialized nature of the design and production of ballasts, Allanson Canada has developed a backlog of experience and know-how that affords it a distinct advantage as newer and more sophisticated methods of lighting are introduced—particularly for highways, parking areas and locations requiring floodlighting.

New product research is being conducted to produce a transformer that is considerably smaller than the standard sizes, thus effecting great advantages for certain specialized applications. These miniaturized transformers utilize an epoxy as the sealant and have already passed several prototype stages.

Investigations into the areas of air cleaners and water and sewage purifiers are projected as part of the long range plans for the two companies. Allanson's profit rate has exceeded the company's ambitious corporate goals in the last few years and The Glengair Group Limited is optimistic about the continued progress of the Allanson companies under the capable leadership of their current management.

REDI-SET BUSINESS FORMS LIMITED

Redi-Set Holdings Limited, of which Redi-Set Business Forms Limited is a wholly-owned subsidiary, represents a further major acquisition. The basis of acquisition was $2,500,000, plus 200,000 shares of The Glengair Group Limited. Manufacturers of snap-out and continuous business forms for data processing installations, Redi-Set's yearly sales growth has been consistently above the industry average.

Founded in 1953, Redi-Set initially manufactured snap-out business forms and later added continuous forms which now account for the major part of its production. As the volume of paper work grows due to the expansion and addition of data processing installations, it is expected that continuous forms will constitute an increasing percentage of annual production.

Redi-Set is one of the leading business forms manufacturers in Canada and has among its customers major oil and life insurance companies, as well as brokerage houses, manufacturers, retailers, educational institutions, banks, service organizations and both the provincial and federal governments. Today, utilizing the latest in sophisticated, up-to-date equipment Redi-Set provides customers with input documents suited to their requirements for optical scanning as well as consecutive MICR numbering and encoding.

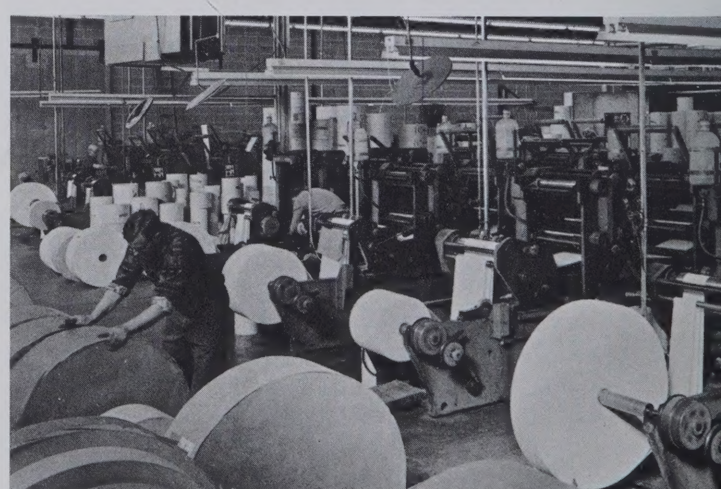
A variety of presses are capable of printing all form depths that are available on the market, and up to five colours in one operation. Collating equipment and precision presses are subjected to tightly controlled quality standards that ensure compatability with the latest in computerized equipment.

Redi-Set through its system trained sales force specializes in marketing the correct style of business form for the particular application required. This includes both input and output for all business machines.

Under the guidance of its continuing management, Redi-Set expects to increase its services and effectiveness to customers whose computer installations call for custom-tailored business forms.

Located in the Don Mills area of Toronto, Redi-Set has approximately 40,000 square feet of manufacturing space.

High quality products combined with specialized customer service have characterized Redi-Set since its founding. With the increasing demand for more effective business forms we are confident that Redi-Set will continue its upward growth pattern.



High speed printing presses at Redi-Set, capable of printing either snap-out or continuous business forms for data processing.

TANCORD INDUSTRIES LTD.

Results of operations for the year ended October 31, 1968, reflect difficult conditions in the harvest twine industry throughout the world and particularly in the Canadian and United States markets.

A net loss of $95,489 was incurred, compared to a profit of $215,488 during the previous year. Sales declined to $7,008,309 from $8,754,900. Costs incurred in the development of new products contributed to a portion of the loss sustained.

The trend toward low-priced imported twines taking an increasing share of the Canadian market appears to have been arrested. At the present time, the Canadian Tariff Board is in the process of investigating the circumstances affecting the industry and the market in Canada. In the meantime, steps are being taken to reduce Tancord's dependence on the harvest twine industry and progress toward this end has already been made. With the exception of harvest production, the [illegible] levels of production. The manufacture of synthetic rope and twine [illegible].

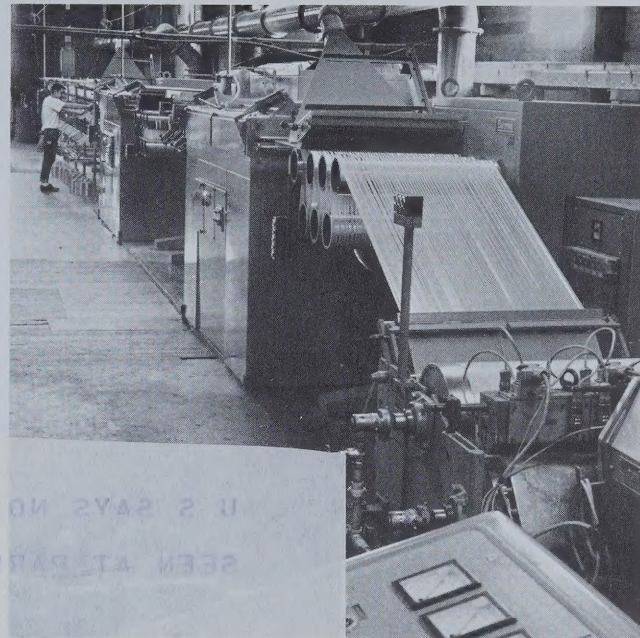
In the [illegible] tion in the supply of synthetic products, research was undertaken to develop new uses in this field. As a result of these studies, a woven polyolefin cloth is being converted into sacks bearing the tradename [illegible]. These sacks, [illegible] burlap sacks, are particularly suited to agriculture and such industries [illegible] products are currently under development.

Late in the fiscal year, Tancord established a subsidiary in Lockport, N.Y. [illegible] use in plastic pre-mix material for the automotive industry. In view of the difficult conditions facing Tancord, the Company is not optimistic as to the results of Tancord's operations during the coming year.

OUTLOOK

In view of the generally optimistic position of subsidiary companies and acquisitions noted in this report, a substantial increase in earnings is expected for the 1969 fiscal period. In addition to the basic acquisition policy of the Company, a new operation is being set up to function in technology-intensive products with emphasis on scientific and analytical instrumentation. This new company called GlenTech Instruments Limited will be headed by Emanuel Batler who was, until joining GlenTech, a Vice President of Philips Electronics Industries Limited.

Other acquisitions are being investigated continuously. Of particular interest to the Company are businesses which might complement existing operations; [illegible] represent an opportunity for future growth in their own right; or businesses which fit within our own concept of future growth industries. In this regard, consideration is being given to the field of communication, involving the cable [illegible] and the "software" aspect of the business systems industry which would correlate [illegible]. The Company also considers that the fields of leisure activity and pollution control will be areas of substantial growth and worthy of concentrated study.



[illegible] for use in polyolefin sacks at Tancord Industries.

The growth in our investment portfolio needs no comment as the [illegible] rise in the market value of [illegible] this report. The Company will continue to investigate investment opportunities [illegible] of the overall concept of being an Investment and Operating Company.

In order to continue this aggressive development, the management of the Company has been strengthened by the appointment of J. Howard Hawke as Executive Vice-President. Mr. Hawke, who has been a director since 1964, will direct his attention primarily to the corporate development and acquisition programme.

The effort and loyalty of employees, associates and shareholders are gratefully acknowledged.

April 4, 1969

J. S. GAIRDNER,
President.

U S SAYS NO BREAKTHROUGH .

SEEN AT PARIS PEACE TALKS

WASHN -AP- GOVERNMENT OFFICIALS SAID THEY .
HAD RECEIVED NO REPORT FROM PARIS INDICATING .
ANY MOVE BY THE NLF TOWARD A BREAKTHROUGH .

EARLIER TODAY A VIET CONG SPOKESMAN SAID .
THE SOUTH VIETNAM NATIONAL FRONT FOR LIBERATION .
IS READY -TO ENTER INTO DISCUSSIONS WITH THE .
OTHER PARTIES TO MAKE THE CONFERENCE MOVE .
FORWARD-

THE LIBERATION FRONT IS THE VIET CONG-S .
POLITICAL ARM

THIS MORNING-S REPORT SAID UNTIL NOW THE .
VIET CONG REFUSED TO HOLD SIDE TALKS WITH THE .
SOUTH VIETNAMESE GOVERNMENT DESCRIBED BY THE .
ALLIES AS A MAJOR STUMBLING BLOCK TO PEACE .

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The trend toward low-priced imported twines taking an increasing share of the Canadian market appears to have been arrested. At the present time, the Canadian Tariff Board is in the process of investigating the circumstances affecting the industry and the market in Canada. In the meantime, steps are being taken to reduce Tancord's dependence on the harvest twine industry and progress toward this end has already been made. With the exception of harvest production, the operations of the plant were maintained at normal levels of production. The manufacture of synthetic rope and tying twine was conducted at full capacity.

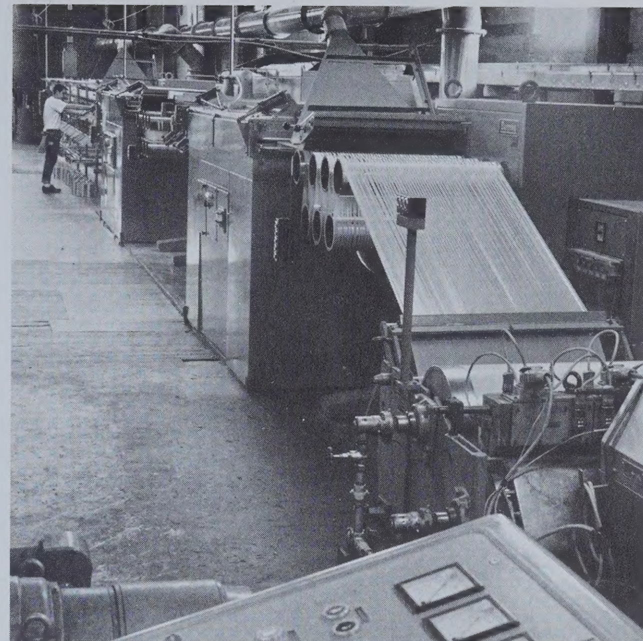
In line with Tancord's plan to expand its participation in the supply of synthetic products, research was undertaken to develop new lines in this field. As a result of these studies, a woven polyolefin cloth is being converted into sacks bearing the tradename "Brantpak". These sacks, similar in use to the familiar burlap sacks, are particularly suited to agriculture and such industries as food and dry chemicals. Other new products are currently under development.

Late in the fiscal year, Tancord established a subsidiary in Lockport, N.Y. for the cutting of fibres for use in plastic pre-mix material for the automotive industry. In view of the difficult conditions facing Tancord, the Company is not optimistic as to the results of Tancord's operations during the coming year.

OUTLOOK

In view of the generally optimistic position of subsidiary companies and acquisitions noted in this report, a substantial increase in earnings is expected for the 1969 fiscal period. In addition to the basic acquisition policy of the Company, a new operation is being set up to function in technology-intensive products with emphasis on scientific and analytical instrumentation. This new company called GlenTech Instruments Limited will be headed by Emanuel Batler who was, until joining GlenTech, a Vice President of Philips Electronics Industries Limited.

Other acquisitions are being investigated continuously. Of particular interest to the Company are



Tape manufacturing for use in polyolefin sacks at Tancord Industries.

businesses which might complement existing operations; businesses which represent an opportunity for future growth in their own right; or businesses which fit within our own concept of future growth industries. In this connection serious consideration is being given to the field of communication, involving the cable television business, and to the "software" aspect of the business systems industry which would correlate with the Redi-Set operation. The Company also considers that the fields of leisure activity and pollution control will be areas of substantial growth and worthy of concentrated study.

The growth in our investment portfolio needs no comment as the substantial rise in the market value of our securities is shown in this report. The Company will continue to investigate investment opportunities in growth situations as part of the overall concept of being an Investment and Operating Company.

In order to continue this aggressive development, the management of the Company has been strengthened by the appointment of J. Howard Hawke as Executive Vice-President. Mr. Hawke, who has been a director since 1964, will direct his attention primarily to the corporate development and acquisition programme.

The effort and loyalty of employees, associates and shareholders are gratefully acknowledged.

J. S. GAIRDNER,
President.

April 4, 1969

ASSETS

	1968	1967
CURRENT		
Cash	$ 635,937	534,939
Short-term investments, at cost	105,000	1,317,346
Accounts receivable	3,897,529	2,245,781
Inventories—at the lower of cost and net realizable value	6,804,152	5,948,171
Prepaid expenses and other assets	296,644	230,948
Taxes recoverable	13,826	148,126
Due from affiliated companies	74,172	—
	$11,827,260	10,425,311
MARKETABLE SECURITIES (Note 2)	$14,126,332	9,722,275
NOTES, DEPOSITS AND MORTGAGES RECEIVABLE	$ 130,544	78,796
SPECIAL REFUNDABLE TAX	$ 43,968	59,970
FIXED (Note 3)		
Land, shale deposits, railway siding, buildings, machinery, equipment and leasehold improvements	$18,694,721	16,620,652
Less: Accumulated depreciation, depletion and amortization	7,012,203	6,249,174
	$11,682,518	10,371,478
DEFERRED CHARGES		
Organization and financing costs including discount on long-term debt, less amortization	$ 551,465	617,103
Goodwill and patent rights—at cost	14,494	14,494
Deferred income tax charges (Note 8)	161,498	47,133
	$ 727,457	678,730
EXCESS OF COST OF INVESTMENT IN SUBSIDIARIES OVER BOOK VALUE OF NET ASSETS ACQUIRED	$ 2,851,514	483,933
	$41,389,593	31,820,493

Approved by the Board

J. S. Gairdner, *Director*

C. W. Leonardi, *Director*

Audit

To the Shareholders,
THE GLENGAIR GROUP LIMITED

We have examined the consolidated balance sheet of The Glengair Group Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the year ended on that date. Our examination of the financial statements of the Company and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

The notes appended hereto for

ROUP LIMITED

f the Province of Ontario)

RY COMPANIES

EET, AS AT DECEMBER 31, 1968

s for 1967—Note 1)

LIABILITIES

	1968	1967
CURRENT		
Bank advances (secured)	$ 4,839,859	3,329,521
Payable in respect of acquisition of shares of subsidiary companies	1,054,349	—
Accounts payable and accrued liabilities	2,652,477	1,465,724
Due to affiliated companies (secured)	—	1,413,751
Income taxes payable	354,282	93,561
Current instalments of long-term debt	509,400	370,000
Dividends payable to minority shareholders of subsidiary	22,935	22,506
	$ 9,433,302	6,695,063
NOTES PAYABLE IN RESPECT OF ACQUISITION OF SHARES OF SUBSIDIARY COMPANIES (Note 10)	$ 2,866,501	—
DEFERRED INCOME TAXES (Note 8)	$ 108,129	189,967
LONG-TERM DEBT (Less current instalments) (Note 4)		
Parent company	$ 3,862,580	4,062,580
Subsidiary companies	$ 4,449,271	4,050,000
MINORITY INTEREST IN SUBSIDIARY COMPANIES		
Preference shares—par value	$ 1,204,985	2,407,695
Common shareholders' equity in capital stock and surplus	1,565,192	1,514,480
	$ 2,770,177	3,922,175

SHAREHOLDERS' EQUITY

	1968	1967
SHARE CAPITAL (Note 5)		
Authorized—10,000,000 common shares without par value		
Issued and fully paid— 7,873,827 common shares (1967—7,860,862)	$ 7,965,610	7,959,910
UNREALIZED APPRECIATION OF MARKETABLE SECURITIES	8,443,151	4,846,062
RETAINED EARNINGS	1,490,872	94,736
	$17,899,633	12,900,708
	$41,389,593	31,820,493

Report

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, with the exception of the change in the method of computing the provision for income taxes as outlined in Note 8, of which we approve.

Toronto, Ontario,
March 4, 1969.

GLENDINNING, JARRETT, GOULD & CO.
Chartered Accountants

integral part of this statement.

THE GLENGAIR GROUP LIMITED
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1968
(With comparative figures for 1967)

	1968	1967
Sales (Net)	$19,882,252	20,384,369
Cost of Sales	15,334,147	15,720,805
Gross Earnings From Operations	$ 4,548,105	4,663,564
Operating Expenses		
Administration and selling	$ 2,219,744	2,106,943
Depreciation and depletion	579,662	575,564
	$ 2,799,406	2,682,507
Earnings From Operations	$ 1,748,699	1,981,057
Financial Expenses		
Debentures		
Interest	$ 559,214	584,209
Amortization of financing costs	58,025	53,953
	$ 617,239	638,162
Other interest	350,568	341,786
	$ 967,807	979,948
	$ 780,892	1,001,109
Investment and Other Income		
Interest	$ 115,944	105,482
Dividends	45,348	41,832
Sundry	124,443	101,012
	$ 285,735	248,326
	$ 1,066,627	1,249,435
Non-Recurring Income—net	74,206	46,371
	$ 1,140,833	1,295,806
Provision for Income Taxes		
Income taxes payable	$ 412,508	269,714
Deferred income taxes (Note 8)	(68,998)	142,834
	$ 343,510	412,548
Net Earnings Before Minority Interest	$ 797,323	883,258
Minority interest in net earnings	59,252	106,627
Net Earnings for the Year	$ 738,071	776,631

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 1968
(With comparative figures for 1967)

	1968	1967
Retained Earnings (Deficit) From Operations		
Balance, January 1	$ (165,119)	(838,595)
Reversal of restated 1967 deferred income tax provision, less minority interest therein	104,630	—
Deficit from operations as previously published	$ (60,489)	(838,595)
Net earnings for the year	738,071	776,631
	$ 677,582	(61,964)
Deduct: Preferred dividends to minority shareholders of subsidiary company	$ 100,326	121,122
Prior years' adjustments	29,622	(17,967)
	$ 129,948	103,155
Balance, December 31	$ 547,634	(165,119)
Realized Appreciation of Marketable Securities		
Balance, January 1	$ 259,855	5,066
Additions during year	683,383	254,789
Balance, December 31	$ 943,238	259,855
Retained Earnings, December 31	$ 1,490,872	94,736

THE GLENGAIR GROUP LIMITED
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED SCHEDULE OF MARKETABLE SECURITIES

AS AT DECEMBER 31, 1968

Par value or number of shares		Type of Security	Total Market Value
	LISTED SECURITIES		
18,075	Atlantic Sugar Refineries Co. Limited	Common	$ 124,265
287,354	Canadian Security Management Limited	Class 'A'	890,797
163,149	Capital Building Industries Limited	Shares	999,288
120,000	Consolidated Building Corporation Limited	Common	600,000
834,821½	The International Helium Company Limited	Shares	1,185,446
186,789	I.T.L. Industries Limited	Common	2,801,835
100,000	Radio Engineering Products Ltd.	Shares	4,850,000
143,310	Venezuelan Power Company Limited	Common	93,152
212,050	Venezuelan Power Company Limited	Preferred	680,163
	UNLISTED SECURITIES		
200,000	Ensign Oil Limited	Shares	820,000
	Miscellaneous		79,476
	DEBENTURES		
$ 125,000	Canadian Security Management Limited 7% convertible debenture due November 1, 1971		125,000
$ 80,000	I.T.L. Industries Limited 6½% convertible debenture due May 1, 1987		220,000
$1,094,850	Venezuelan Power Company Limited Series 'A' 6%, due January 15, 1986		656,910
			$14,126,332

(distributor of mutual fund — portfolios well in excess [illegible]

[illegible] for 1969

own close to 50% of reorganized co.

Venpower: another candidate for org [illegible]

THE GLENGAIR GROUP LIMITED
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1968
(With comparative figures for 1967)

	1968	1967
SOURCE OF FUNDS		
Net earnings for the year	$ 738,071	776,631
Add: Charges not requiring an outlay of funds		
Depreciation and depletion	579,662	575,564
Deferred income taxes	(68,998)	142,834
Amortization of deferred financing costs	58,025	53,953
Minority interest in net earnings	59,252	106,627
	$ 1,366,012	1,655,609
Other		
Debenture issue	$ 650,000	
Issue of common shares of subsidiary and parent company	8,200	492,254
Special refundable tax	17,751	(41,828)
Marketable securities sold	1,154,296	556,822
	$ 1,830,247	1,007,248
	$ 3,196,259	2,662,857
APPLICATION OF FUNDS		
Fixed assets purchased (net)	$ 1,628,091	549,800
Notes receivable	—	72,309
Marketable securities purchased	2,201,211	—
Preferred shares of a subsidiary company redeemed	16,050	15,427
Dividends declared	161,898	181,723
Long-term debt retirement	510,000	470,000
Miscellaneous	38,647	(14,302)
	$ 4,555,897	1,274,957
INCREASE (DECREASE) IN WORKING CAPITAL BEFORE UNDERNOTED ITEM	$(1,359,638)	1,387,900
Add: Net increase in consolidated working capital on acquisition of subsidiary companies	23,348	—
INCREASE (DECREASE) IN WORKING CAPITAL FOR YEAR	$(1,336,290)	1,387,900
Add: Working capital, January 1	3,730,248	2,342,348
WORKING CAPITAL, DECEMBER 31	$ 2,393,958	3,730,248

THE GLENGAIR GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at December 31, 1968

1. BASIS OF CONSOLIDATION

The accompanying consolidated financial statements are based upon the December 31, 1968 financial statements of The Glengair Group Limited and its subsidiary companies, with the exception that the assets and liabilities of Tancord Industries Ltd. whose fiscal year end was October 31, 1968, have been included as of that date. The assets and liabilities of Allanson Manufacturing Corporation Limited and Allanson Manufacturing Corporation (U.S.), the capital stock of which was acquired in December 1968, have been included for that year; earnings of these two companies for 1968 have not been included in the consolidated statement of earnings.

2. MARKETABLE SECURITIES

	1968		1967	
	Cost	Market Valuation	Cost	Market Valuation
Securities listed on recognized Canadian stock exchanges	$4,600,020	12,277,842	4,160,856	8,560,711
Unlisted securities	1,024,530	1,848,490	676,072	1,161,564
	$5,624,550	14,126,332	4,836,928	9,722,275

Securities listed on Canadian stock exchanges have been valued at quoted market values on the relative exchanges on December 31, 1968. Unlisted securities have been stated at approximate market values on December 31, 1968.

3. FIXED ASSETS

Fixed assets are carried in the accounts as follows:

		Appraisals plus subsequent additions at cost			
	Cost	Basis 'A'	Basis 'B'	Basis 'C'	Total
Land	$ 75,595	209,000			284,595
Shale deposits	137,610				137,610
Railway siding		10,825			10,825
Buildings, machinery, equipment and leasehold improvements	2,630,514	5,526,878	5,019,116	4,785,560	17,962,068
Construction in progress		299,623			299,623
	$2,843,719	6,046,326	5,019,116	4,785,560	18,694,721

Appraisal Basis 'A'—These are assets of Canada Brick Company Limited stated at values (replacement cost) determined by an appraisal made by Canadian Appraisal Company Limited as of June 30, 1965, with subsequent additions at cost. Accumulated depreciation has been determined on the basis of observed depreciation as per the appraisal referred to, plus subsequent additions thereto based on cost. Depletion has been based on production related to estimated content of shale deposits.

Appraisal Basis 'B'—These are assets of a subsidiary of Northern Tar, Chemical and Wood Limited which are stated at a valuation approved by the Board of Directors of the relevant company, being less than values (replacement cost) as determined by an appraisal made by General Appraisal Company as at November 23, 1965 with subsequent additions at cost. Depreciation has been provided on the basis of amortizing the undepreciated cost at January 1, 1963 of the various assets with subsequent additions at cost over their estimated useful lives, as determined by management.

Appraisal Basis 'C'—These are assets of Tancord Industries Ltd. stated at values (replacement cost) determined by an appraisal made by Fidelity Appraisal Limited as of March 10, 1960, with subsequent additions at cost. Accumulated depreciation has been determined on the basis of observed depreciation as per the appraisal referred to plus subsequent additions thereto based on cost.

4. LONG TERM DEBT

A. Parent Company—$3,862,580 (1967—$4,062,580)

$2,062,580—6¾% Debentures Series A, due December 15, 1985 (1967 $2,162,580)
The Company has covenanted to establish a sinking fund to provide for the retirement of $100,000 principal amount of 6¾% Debentures Series A on December 15 in each of the years 1969 to 1984 inclusive. The 1969 amount has been shown as a current liability.

$1,800,000—6½% Sinking Fund Debentures Series B, due June 30, 1976 (1967 $1,900,000)
The Company has covenanted to establish a sinking fund to provide for the retirement of 6½% Sinking Fund Debentures Series B requiring payment of $100,000 on December 15 in each of the years 1969 to 1975 inclusive, to be applied to the purchase of 6½% Sinking Fund Debentures Series B at prices not exceeding the principal amount thereof plus accrued interest and cost of purchase, provided that the amount to be paid by the Company into such sinking fund on any such date shall not exceed the difference between $200,000 and the amount remaining in such sinking fund and not so applied. The 1969 amount has been shown as a current liability.

B. Subsidiary Companies $4,449,271 (1967—$4,050,000)

Repayment is as follows:

$1,490,000 7.80% Secured Debenture due December 15, 1983 (exclusive of $110,000 due December 15, 1969 shown as a current liability).

$110,000 annually December 15, 1970 to 1978 inclusive

$100,000 annually December 15, 1979 to 1983 inclusive

This debenture replaces the previous indebtedness of $950,000 outstanding as of December 31, 1967.

$1,700,000 6¾% First Mortgage Sinking Fund Bonds due January 4, 1986 (1967 —$1,800,000)

The relevant company has covenanted to establish a sinking fund to provide for the retirement of $100,000 principal amount of 6¾% First Mortgage Sinking Fund Bonds on January 4 in each of the years 1969 to 1985 inclusive. The current obligation has been met.

$1,200,000—6¾% secured debenture due July 31, 1981 (1967—$1,300,000)

The relevant company has covenanted to redeem $100,000 principal amount of this debenture on July 31 in each of the years 1969 to 1981 inclusive. The 1969 amount has been shown as a current liability.

$59,271—Mortgage and Floating Charge Debentures (exclusive of $99,400 shown as a current liability)

5. CAPITAL STOCK, OPTIONS AND WARRANTS

Capital Stock

12,965 shares were issued during 1968 for a cash consideration of $5,700 pursuant to previously granted options and warrants.

Options

150,000 shares at $2 per share to expire not later than December 30, 1969, to a shareholder.

12,565 shares at $.3979 per share to expire not later than August 31, 1972, to an employee of a subsidiary company.

60,000 shares at $1.50 per share (at a maximum rate of 7,500 shares per year), to an officer of a subsidiary company (to expire not later than February 28, 1975).

In addition, one of the subsidiary companies has outstanding options on 600 of its common shares at a price of $2.50 per share. The said options expire March 31, 1969.

Share Purchase Warrants

As a result of the sale of Series B Debentures there are share purchase warrants outstanding entitling the holders thereof to purchase an aggregate of 799,600 common shares of the Company at the following prices:

$1.75 per share if exercised on or before June 30, 1970; thereafter
$2.25 per share if exercised on or before June 30, 1972; thereafter
$3.00 per share if exercised on or before June 30, 1974; and thereafter
$4.00 per share if exercised on or before June 30, 1976; void thereafter.

6. PRINCIPLE OF CONVERSION OF FOREIGN ASSETS

Assets and liabilities in United States funds have been converted at the closing rate on December 31, 1968, except for those of a subsidiary whose year end was October 31, 1968.

7. INCOME TAXES

In determining the estimated income tax liability for the years 1963 to 1966 inclusive, a subsidiary company deducted interest and financing charges on its secured debentures. The Department of National Revenue has issued re-assessments for these years under which $180,098 has been disallowed. Negotiations are pending with the Department to have these re-assessments eliminated. If such negotiations are not successful the company intends to appeal against the re-assessments and in that event the additional tax payable, if any, will be a matter to be determined by the Courts.

No corresponding re-assessments have been issued by the Ontario Corporations Tax Branch.

Should the company be unsuccessful the combined federal and provincial taxes would aggregate $93,651 excluding interest. Pending settlement, this liability is not included in the balance sheet.

8. DEFERRED INCOME TAXES

A. In 1968 the Company adopted the tax allocation basis of computing provisions for income taxes and the comparative 1967 figures have been restated accordingly.

B. Unrecorded deferred income tax credits (net of charges) accumulating prior to the adoption of the allocation basis in 1968, arising from capital cost allowances claimed in excess of depreciation recorded, amount to $163,461.

9. STATUTORY INFORMATION

The aggregate direct remuneration paid or payable to the directors and senior officers (including the five highest paid employees) from the Company or its subsidiaries was $169,857 (1967—$167,557).

10. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

A. On February 17, 1969 the Company effectively acquired Redi-Set Business Forms Limited for a total consideration of $3,100,000, payable $2,500,000 in cash plus 200,000 shares of the Company.

B. On February 19, 1969 the notes payable in respect of the acquisition of the subsidiary companies ($2,866,501) were exchanged for 1,042,364 shares of the Company.

THE GLENGAIR GROUP LIMITED

CANADA BRICK COMPANY	Box 668 Streetsville, Ontario
NORTHERN TAR, CHEMICAL AND WOOD LIMITED AND SUBSIDIARY COMPANIES	Box 990 Port Arthur, Ontario Prince Albert, Sask.
ALLANSON MANUFACTURING CORPORATION LIMITED	33 Cranfield Road Toronto 16, Ontario 28 Rolark Drive Scarborough, Ontario
ALLANSON MANUFACTURING CORPORATION	435 Payne Avenue North Tonawanda, N.Y.
REDI-SET BUSINESS FORMS LIMITED	36 Scarsdale Road Don Mills, Ontario
TANCORD INDUSTRIES LTD. AND SUBSIDIARY COMPANIES	Brantford, Ontario Lockport, New York